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PTQ4418

RELEASED IN PART
B1, 1.4(D)

PAGE 01 CARACA 02736 01 OF 03 061710Z
ACTION SSO-00

INFO LOG-00 ANHR-00 EB-00 E-00 TEDE-00 NSCE-00 SS-00
TRSE-00 SAS-00 /000W

-----E39F12 061711Z /38

P 061633Z SEP 02 ZDK
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 7573
INFO AMEMBASSY BOGOTA
USCINCSO MIAMI FL
USDOE WASHDC
DEPT OF TREASURY WASHDC
NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 002736

STATE FOR E - UNDER SECRETARY LARSON FROM THE AMBASSADOR
TREASURY FOR OASIA - AARON JONES
USDOE FOR DAS DAVID PUMPHREY
NSC FOR AMB. MAISTO, HUGO LLORENS

E.O. 12958: DECL: 09/06/12
TAGS: PREL, ECON, EPET, PGOV, VE
SUBJECT: SCENESETTER FOR U/S LARSON'S VISIT TO CARACAS

CLASSIFIED BY AMB. CHARLES SHAPIRO. REASONS: 1.5(B) AND
(D).

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PAGE 02 CARACA 02736 01 OF 03 061710Z
SUMMARY

B1

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: ALAN H FLANIGAN
CLASSIFICATION: CONFIDENTIAL REASON: 1.4(D)
DECLASSIFY AFTER: 5 SEP 2017
DATE/CASE ID: 12 JUN 2007 200504156

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PTQ4419

PAGE 01 CARACA 02736 02 OF 03 061711Z
ACTION SSO-00

INFO LOG-00 ANHR-00 EB-00 E-00 TEDE-00 NSCE-00 SS-00
TRSE-00 SAS-00 /000W

-----E39F1C 061711Z /38

P 061633Z SEP 02 ZDK
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 7574
INFO AMEMBASSY BOGOTA
USCINCSO MIAMI FL
USDOE WASHDC
DEPT OF TREASURY WASHDC
NSC WASHDC

C O N F I D E N T I A L SECTION 02 OF 03 CARACAS 002736

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PAGE 02 CARACA 02736 02 OF 03 061711Z

ECONOMY HEADING DOWNHILL FAST

5. (U) WITH A BUDGET DEFICIT CURRENTLY ESTIMATED AT 6.7 PERCENT OF GDP, AND A GROWTH RATE OF NEGATIVE 7.1 PERCENT FOR THE FIRST HALF OF 2002, THE VENEZUELAN ECONOMY IS IN SERIOUS CRISIS. UNEMPLOYMENT HAS REACHED 16 PERCENT, NEARLY 60 PERCENT OF VENEZUELAN'S LIVE AT OR BELOW THE POVERTY LINE, AND INFLATION IS EXPECTED TO SURPASS 30 PERCENT BY YEAR'S END. THE BOLIVAR IS RAPIDLY LOSING VALUE. THE BUSINESS ELITE LOATHES CHAVEZ, AND IS CONVINCED HE WOULD INSTALL A CUBAN-STYLE MARXIST DICTATORSHIP IF HE COULD. FOR HIS PART, CHAVEZ ASSERTS THAT VENEZUELAN BUSINESS'S LACK OF INVESTMENT IN THE COUNTRY AND CONSTANT BAD-MOUTHING OF HIM AMOUNTS TO PROVOKING A RECESSION AND IS THUS IN EFFECT AN "ECONOMIC COUP D'ETAT." THE ECONOMY'S POOR PERFORMANCE AND THE SURROUNDING POLITICAL NOISE HAVE HURT THE GOV IN INTERNATIONAL BOND MARKETS. FINANCE MINISTER NOBREGA IS PLANNING A "ROAD SHOW" TRIP TO THE U.S. ON THE WEEK OF SEPTEMBER 16, WHERE HE WILL FACE A HARD SELL, DESPITE OFFERING HIGH INTEREST RATES.

6. (C)

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TO GAIN REVENUE THE
VALUE-ADDED TAX HAS BEEN INCREASED, AND A TAX ON BANK
TRANSACTIONS HAS BEEN IMPOSED.

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OIL AND OPEC

7. (C) OIL ACCOUNTS FOR ABOUT 80 PERCENT OF VENEZUELA'S EXPORT EARNINGS, 40 PERCENT OF GOVERNMENT REVENUES AND 25 PERCENT OR MORE OF THE COUNTRY'S GDP.

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CHAVEZ HAS RECENTLY REITERATED THE IMPORTANCE OF OPEC SOLIDARITY IN MAINTAINING OIL PRICES. FOLLOWING UNREST IN PDVSA IN MARCH AND APRIL, CHAVEZ APPOINTED THEN OPEC SECRETARY GENERAL ALI RODRIGUEZ TO BE PDVSA PRESIDENT. ALTHOUGH RODRIGUEZ OPPOSED VENEZUELA'S PARTIAL OPENING OF THE PETROLEUM SECTOR TO THE PRIVATE SECTOR IN THE 1990'S, HIS APPOINTMENT WAS WELCOMED BECAUSE OF THE STABILITY IT BROUGHT TO THE COMPANY. ENERGY MINISTER RAFAEL RAMIREZ, ALSO NEW TO HIS POSITION, WILL DEPART FOR HIS FIRST OPEC

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PAGE 04 CARACA 02736 02 OF 03 061711Z
MEETING TWO DAYS AFTER YOUR MEETING.

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HYDROCARBONS LAW

8. (C) A HYDROCARBONS LAW WAS PASSED IN NOVEMBER 2001. IT INCREASED ROYALTY RATES ON NEW OIL PRODUCTION FROM 16.7 PERCENT TO 30 PERCENT (20 PERCENT IN SOME CIRCUMSTANCES). IT ALSO MANDATED THAT PDVSA HAVE AT LEAST A 50 PERCENT SHARE IN FUTURE JOINT VENTURE PROJECTS.

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PTQ4410

PAGE 01 CARACA 02736 03 OF 03 061710Z
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P 061633Z SEP 02
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 7575
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